

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

GENERAL ADJUSTMENT OF RATES	)	
OF HEDGEVILLE WATER	)	CASE NO. 8945
ASSOCIATION INC.	)	

O R D E R

On December 6, 1983, Hedgeville Water Association ("Hedgeville") filed an application with the Commission to increase its water rate pursuant to 807 KAR 5:076. This regulation permits utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative filing method to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. Hedgeville requested an increase in revenues of \$8,000, which the Commission has granted in this Order.

TEST PERIOD

The Commission has accepted the 12-month period ending December 31, 1982, as the test period in this case.

REVENUES AND EXPENSES

Hedgeville proposed no pro forma adjustments to its test period operations. However, the Commission is of the opinion that the following adjustments to expenses are necessary to reflect normalized operations for rate-making purposes:

### Purchased Water Expense

During the test period Hedgeville incurred a purchased water expense of \$28,918, which reflects a 27.21 percent line loss. It has been this Commission's long-standing policy to limit line loss for a water utility to 15 percent for rate-making purposes. Therefore, based on Hedgeville's average cost of purchased water during the test period, the Commission has reduced this expense to \$24,737 for rate-making purposes.<sup>1</sup>

### Depreciation Expense

Hedgeville's depreciation expense for the test period was \$15,077. It is the Commission's policy to compute depreciation expense on the basis of original cost of plant in service, as the utility should not be provided recovery on that portion of the plant which has been provided free of cost. Therefore, the Commission finds that the reasonable depreciation expense for

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<sup>1</sup> Calculation:

Cost of Purchased Water	\$ 28,918
Purchased Water in Gallons	26,500,700 gal.
Average Cost per 1,000 gallons	\$1.09/1,000 gal.
Gallons sold	19,290,077 gal.
15 percent line loss	* .85
Purchases allowed	<u>22,694,208 M gal.</u>
Average Cost per 1,000 gallons	<u>\$1.09</u>
Purchased Water Cost Allowed	\$ 24,737

rate-making purposes is \$10,089, a reduction in actual depreciation expense of \$4,988.<sup>2</sup>

Therefore, Hedgeville's adjusted test period operations are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues <sup>3</sup>	\$ 65,361	-0-	\$ 65,361
Operating Expenses	<u>61,143</u>	<u>\$ (9,169)</u>	<u>51,974</u>
Operating Income	<u>\$ 4,218</u>	<u>\$ 9,169</u>	<u>\$ 13,387</u>

#### REVENUE REQUIREMENTS

Hedgeville has a debt service of \$21,282.<sup>4</sup> Hedgeville's adjusted operations provide a debt service coverage ("DSC") of .6X. The Commission is of the opinion that this coverage is not fair, just or reasonable in that it will not allow Hedgeville to pay its operating expenses and provide sufficient revenues to meet its debt service requirements. Therefore the Commission has allowed the proposed \$8,000 increase requested by Hedgeville,

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<sup>2</sup> Calculation:

1982 Depreciation Expense (\$15,077) + Plant in Service at 12/31/82 (\$532,240) = 2.83 percent composite rate.

Plant in Service	\$532,240
Less: Contributions in Aid of Construction	<u>175,739</u>
Non-Contributed Plant	<u>\$356,501</u>
Composite Rate	<u>2.83%</u>

Allowable Depreciation \$ 10,089

<sup>3</sup> Includes interest and dividend income of \$3,528.

<sup>4</sup> Response to Commission data request filed January 20, 1984.

which provides a DSC of approximately 1.0X and will improve Hedgeville's financial position.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

The rates in Appendix A are the fair, just and reasonable rates for Hedgeville to charge for water service and should be approved.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are the fair, just and reasonable rates for Hedgeville to charge for water service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Hedgeville shall file with this Commission, within 30 days of the date of this Order, its revised tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 16th day of February, 1984.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8945 DATED 2/16/84

The following rates are prescribed for customers in the area served by Hedgeville Water Association. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

RATES: Monthly

First	2,000 gallons	\$10.70 Minimum Bill
Next	3,000 gallons	4.51 per 1,000 gallons
Next	10,000 gallons	3.39 per 1,000 gallons
Next	10,000 gallons	2.27 per 1,000 gallons
Over	25,000 gallons	1.27 per 1,000 gallons